

PROSPECTUS

FOR THE
SAN MATEO COUNTY
EVENT CENTER
TO
OPERATE A SATELLITE
WAGERING FACILITY ON ITS
FAIRGROUNDS

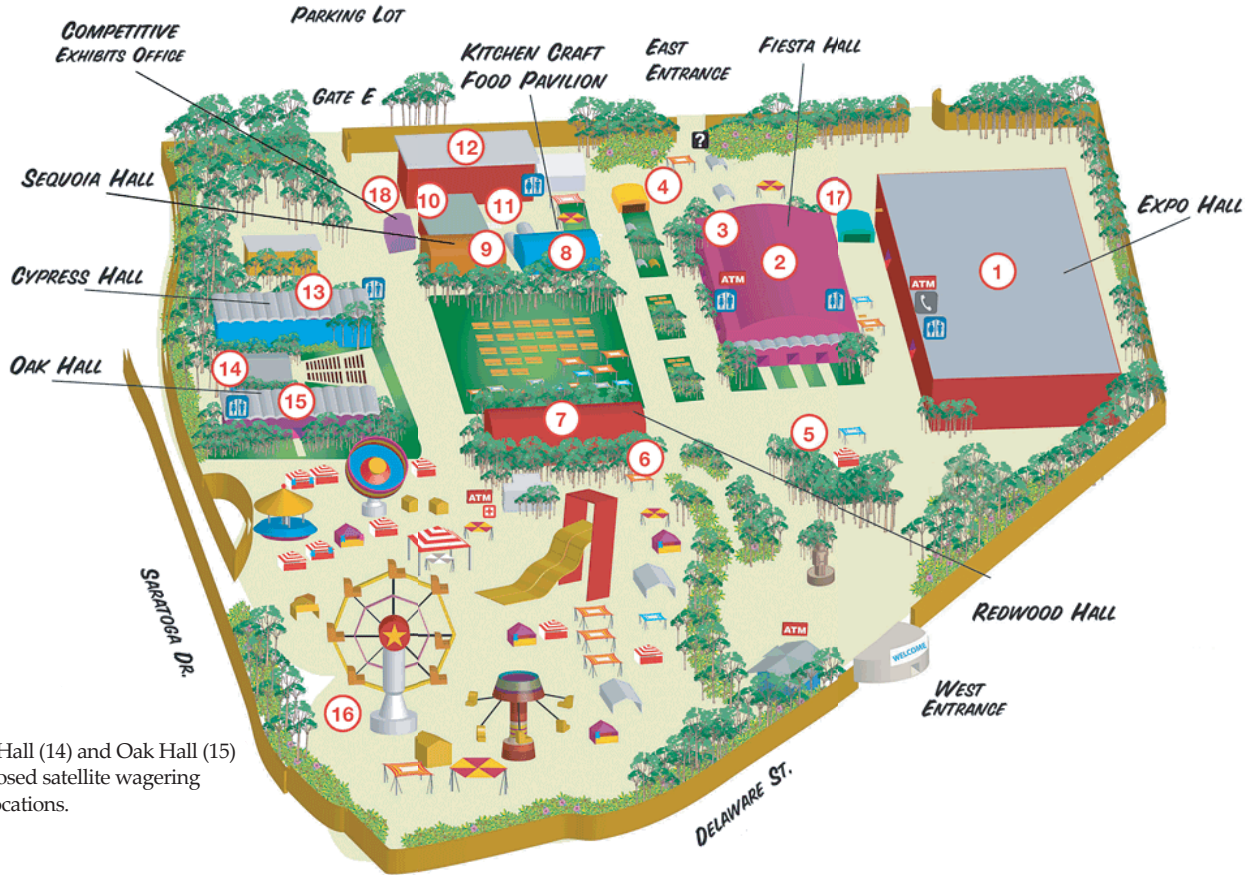
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OF RACING FAIRS



OCTOBER 2007

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* Cypress Hall (14) and Oak Hall (15) are proposed satellite wagering facility locations.



PLAN

This prospectus describes a plan for the San Mateo County Event Center Fair (SMCEC) to develop and operate a Satellite Wagering Facility (SWF) on the San Mateo Fairgrounds.

This plan envisions that the San Mateo County Event Center, in collaboration with California Authority of Racing Fairs (CARF), California Department of Food and Agriculture Division of Fairs and Expositions (CDFA F&E) and the California Construction Authority (CCA) will renovate, upgrade and convert Oak Hall and Cypress Hall into a Satellite Wagering Facility equal to or better than the facility currently operated in San Mateo.

California Business and Professions Code Section 19605.45 provides specific authorization for the San Mateo County Event Center to operate a SWF when Bay Meadows ceases to operate as a race track. The prospectus outlines a development plan that envisions a Fair-operated satellite facility opening September 2008.

An experienced development team made up of CARF, CDFA and CCA, working with the San Mateo County Event Center, can offer the specialized designers, contractors and vendors necessary to implement satellite wagering. This development team will also assist in assembling a financing package with a target development budget of \$3.2 million. This same development team will provide start-up training and support for Fair personnel involved in satellite wagering.

CARF and CDFA will assist in securing the necessary approvals and licenses to operate. CARF will work with the San Mateo County Event Center to negotiate the required contract with Northern California Off-Track Wagering Inc. (NCOTWInc) for conducting parimutuel wagering. NCOTWInc will furnish all parimutuel personnel and provide support operations necessary for conduct of satellite wagering. NOTWInc bears the cost of operating the parimutuel component of satellite wagering operations.

California Authority of Racing Fairs (CARF) and CDFA Division of Fairs and Expositions can currently offer financing of \$1.65 million. CARF offers \$650,000 as grant, with \$50,000 of that available immediately for design services and \$600,000 available for general development

and construction costs. CDFA F&E is offering \$1,000,000 as a low-cost loan to be paid back from operating revenues generating from satellite wagering operations. This financing requires certain commitments from the San Mateo County Fair.

This prospectus projects \$60.2 million in annual parimutuel handle and an attendance of 179,000 at a satellite facility operated by the San Mateo County Event Center. This projected handle will generate \$2.5 million in gross revenues with a \$1.2 million cost of operation, yielding \$1.3 million in net revenue. Furthermore, the facility will generate approximately \$198,000 in .33% revenues to the city and/or county of San Mateo.

This schedule envisioned in this plan requires that the San Mateo County Event Center Board of Directors take action to proceed no later than November 30, 2007.

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Furthermore, the facility will generate approximately \$198,000 in .33% revenues to the city and/or county of San Mateo.

san mateo
county
fair

PROSPECTUS

TIMELINES

OCTOBER 2007

San Mateo County Event Center (SMCEC) Board of Directors adopts plan to develop, license and operate a satellite wagering facility with assistance and financing from CARF, CDFA and CCA. Fair team commits funding to project. Request for approval to operate satellite wagering sent to CDFA. Architect engaged and begins design. CARF and CCA begin to put together supporting contractors and specialized vendors. CARF and SMCEC submit letter-of-intent to California Horse Racing Board (CHRB). CEQA review commences.

NOVEMBER 2007

Permit discussions, if necessary, with County and City commence. Balance of Financing Package complete.

DECEMBER 2007

Initial design review completed. Design proceeds to next stage. CEQA review continues.

JANUARY 2008

Final design approved. Construction contractor(s) engaged. Last interim rentals of Oak Hall and Cypress Hall. CEQA completed. City and county permits in place. Letter from Secretary of Food and Agriculture approving satellite wagering at SMCEC received. Design forwarded to CHRB with letter from CDFA and progress report sent to CHRB.

FEBRUARY 2008

Renovation and conversion of Oak Hall and Cypress Hall begins. Furnishings selected and ordered. Electronic equipment ordered.

MARCH/APRIL/MAY/JUNE 2008

Renovation and conversion of Oak Hall and Cypress Hall continues. Request for license hearing sent to CHRB.

JULY 2008

Renovation and conversion of Oak Hall and Cypress Hall continues. Installation of satellite, television and other technical systems begins. Progress report and request for licensure sent to CHRB.

AUGUST 2008

Construction and renovation completed. Final installation and testing of technical systems completed. Satellite personnel hired. CHRB inspection completed. CHRB issues license for operation.

SEPTEMBER 2008

Opening day set. Facility opens.

OCTOBER 2007

SMCEC Board adopts plan. Financing from CARF, CDFA and CCA. Request for approval sent to CDFA. Design Begins. CARF and SMCEC submit letter-of-intent to CHRB.

NOVEMBER 2007

County and City permit discussions commence. Balance of Financing Package complete.

DECEMBER 2007

Initial design review completed. Design proceeds to next stage. CEQA review continues.

JANUARY 2008

Final design approved. City and county permits in place. Letter from Secretary of Food & Ag. received. Design forwarded to CHRB with letter from CDFA. Progress report sent to CHRB.

FEBRUARY 2008

Renovation and conversion of Oak Hall and Cyprus Hall begins. Furnishings and electronic equipment ordered.

MARCH/APRIL

MAY/JUNE 2008

Renovation and conversion of Oak Hall and Cyprus Hall continues. Request for license hearing sent to CHRB.

JULY 2008

Renovation and conversion of Oak Hall and Cyprus Hall continues. Installation of satellite, television and other technical systems begins. Progress report sent to CHRB.

AUGUST 2008

Construction and renovation completed. Final installation and testing of satellite, television and other technical systems completed. Satellite personnel hired. CHRB inspection completed. CHRB issues license for operation.

SEPTEMBER 2008

OPENING DAY SET. FACILITY OPENS.

PROSPECTUS

CALENDAR

2007-2008

| PROJECT PHASE | DATE |
|---|------------------|
| SMCEC Board Adopts Plan/Begin Financing with Assistance from CARE, CDFA & CCA/Request CDFA Approval to Operate SWF/Engage Architect & Begin Design/CARF & CCA Review Contractors & Vendors/CARF & SMCEC Submit Letter of Intent to CHRB/Begin CEQA Review | OCTOBER |
| Continue Above/Permit Discussion if Necessary/Complete Financing Package | NOVEMBER |
| Initial Design Review Complete/Design Proceeds to Next Stage/CEQA Review Continues | DECEMBER |
| Final Design Approved/Contractors Engaged/Last Interim Rentals of Oak & Cyprus Halls/CEQA Review Completed/City & County Permits in Place/Letter from Secretary of Food & Ag Received/Design Forwarded to CHRB with Letter from CDFA/Progress Report Sent to CHRB | JANUARY |
| Renovation & Conversion of Oak & Cyrus Halls Begins/Furnishings Selected & Ordered/Electronic Equipment Ordered | FEBRUARY |
| Renovation and Conversion of Oak & Cyprus Halls Continues/Request for License Hearing Sent to CHRB | APRIL, MAY, JUNE |
| Renovation and Conversion of Oak & Cyprus Halls Continues/Installation of Satellite, Television & Technical Systems Begins/Progress Report & Request for License Sent to CHRB | JULY |
| Construction & Renovation Completed/Final Installation & Testing of Technical Systems Completed/Satellite Personnel Hired/CHRB Inspection Completed/CHRB Issues License for Operation | AUGUST |
| Opening Day Set & Facility Opens | SEPTEMBER |

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FINANCIAL PROJECTIONS

The financial projections presented here assume that satellite wagering handle and attendance in San Mateo will continue at a level of 70% of Bay Meadows using 2006 as a baseline reference year. This projection is based on the departure of the trainers, grooms and other attendants who will move to a different stabling and training location when Bay Meadows closes. Using the assumption of 70%, we are projecting that a SWF at will transact \$60.2 million in annual parimutuel handle with an annual attendance of 179,000. This will in turn generate \$1.52 million in parimutuel commissions to the Fair plus approximately \$1 million in operations' revenue (admissions, parking, food and beverage, program sales, etc.), producing a total of \$2.52 million in gross revenues. We project that the cost of operating the facility will be \$1.2 million, leaving projected net revenue of \$1.3 million annually for the San Mateo County Event Center. Furthermore, based on these assumptions, a Fair-operated SWF will generate \$198,000 in revenue for the city and/or the county of San Mateo.

SAN MATEO COUNTY EVENT CENTER PROJECTED SATELLITE WAGERING ANNUAL BUDGET

OPERATIONS REVENUE

| | |
|------------------------------------|---------------------|
| Admissions and Parking - Satellite | \$ 570,000 |
| Total Admissions & Parking | <u>\$ 570,000</u> |
| | |
| Parimutuel Revenue | |
| Satellite Location Fee 2% | \$ 1,204,000 |
| ADW | \$ 270,000 |
| Promotion Revenues - Satellite | <u>\$ 48,000</u> |
| Total Parimutuel Revenues | <u>\$ 1,522,000</u> |
| | |
| Satellite F&B Concessions | |
| Food & Beverage - Satellite | \$ 70,000 |
| Bar Operations | <u>\$ 37,500</u> |
| Total F&B Concessions | <u>\$ 107,500</u> |
| | |
| Satellite Racing Concessions | |
| Program Sales - Satellite | \$ 63,000 |
| Racing Forms, TipSheets, Digest | <u>\$ 240,000</u> |
| Total Racing Concessions | <u>\$ 303,000</u> |
| | |
| Misc. Satellite Concessions | |
| ATM Revenue | \$ 20,000 |
| Gift Shop Sales | \$ 2,000 |
| Miscellaneous Simulcast | <u>\$ -</u> |
| Total Misc. Concessions | <u>\$ 22,000</u> |

TOTAL SATELLITE REVENUE \$ 2,524,500

SATELLITE EXPENSES

| | |
|-----------------------------|-------------------|
| Salaries & Wages | |
| Salaries & Wages - Perm. | \$ 440,000 |
| O/T Salaries & Wages- Perm. | \$ 5,740 |
| Salaries & Wages - Temp | \$ 4,000 |
| O/T Salaries & Wages - Temp | <u>\$ 500</u> |
| Total Salaries & Wages | <u>\$ 450,240</u> |

| | |
|----------------------------------|-----------------|
| Expenses | |
| Payroll Taxes | \$ 35,000 |
| Unemployment Insurance | \$ 4,000 |
| Health Insurance | \$ 92,000 |
| Life Insurance | \$ 2,000 |
| Disability Insurance | \$ 3,600 |
| Insurance W/C | \$ 28,000 |
| Union Pension Contributions | \$ 17,000 |
| Legal Services | \$ 5,000 |
| Security | \$ 92,000 |
| Alarm Monitoring Service | \$ 7,000 |
| Outside Services | \$ 12,000 |
| Meals & Entertainment | \$ 1,500 |
| Travel | \$ 2,500 |
| Hiring Expense | \$ 7,500 |
| Training | \$ 10,000 |
| Depreciation of Office Equipment | \$ 10,000 |
| Supplies | \$ 7,500 |
| Permits/Licenses/Certifications | \$ 2,000 |
| Janitorial Supplies | \$ 18,500 |
| Dues & Subscriptions | \$ 19,145 |
| Advertising | \$ 35,000 |
| Promotion | \$ 25,000 |
| Programs | \$ 43,000 |
| Daily Racing Forms/Digest | \$ 202,500 |
| Tip Sheets | \$ 4,500 |
| Gift Shop | \$ 1,500 |
| Utilities - Electricity | \$ 6,000 |
| Utilities - Gas | \$ 20,000 |
| Cable Television | \$ 15,000 |
| Telephone/Pager | \$ 3,500 |
| Repair & Maintenance | <u>\$ 5,000</u> |

TOTAL SATELLITE EXPENSE \$ 1,187,485

NET OPERATING INCOME (LOSS) \$ 1,337,015

SATELLITE WAGERING ORIENTATION BACKGROUND

The history of horseracing in California reflects a long-standing association with Fairs. Early, organized racing began in Stockton and Sacramento in the late 1840's during the days of the Gold Rush. The racetrack in Pleasanton has operated continuously since 1856, at first in private hands, later as a Fair. The breeding and training of fine racehorses are aspects of the agricultural economy. Just as cattle are bred for meat and milk production, or sheep for wool production, racehorses are bred and trained for speed and stamina. It's natural that racing competition, along with other livestock competition, would be conducted at the local or regional agricultural expositions.

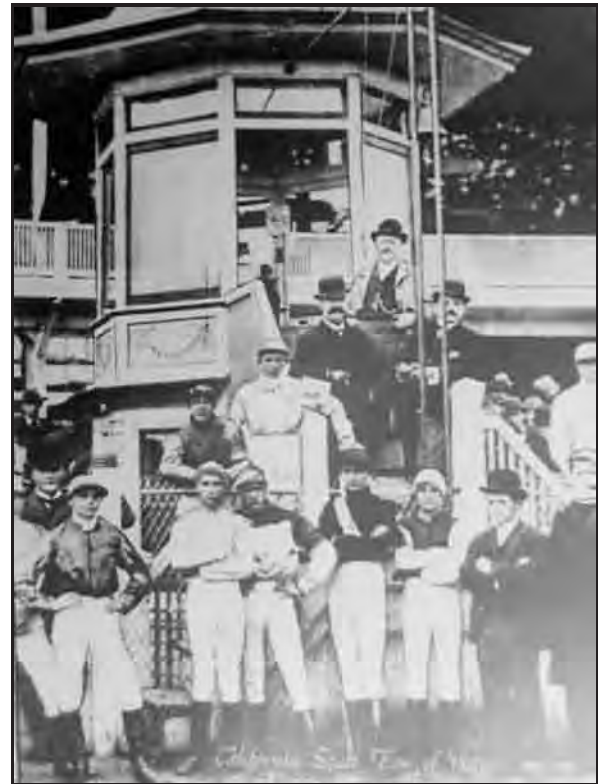
Horseracing Law, in its opening chapter, Business and Professions Code, Article 1, Section 19401, states the legislative intent that parimutuel wagering on horse racing should support Fairs.

19401. The intent of this chapter is to allow parimutuel wagering on horse races, while:
- (a) Assuring protection of the public.
 - (b) Encouraging agriculture and the breeding of horses in this state.
 - (c) Supporting the network of California fairs.**
 - (d) Providing for maximum expansion of horse racing opportunities in the public interest.
 - (e) Providing uniformity of regulation for each type of horse racing.

The marriage of Fairs and horseracing has deep roots in California political history. Modern parimutuel wagering began in 1933 with the direct intention of generating revenue for the State, for Fairs (through Fairs & Expositions fund) and for the continued support of horseracing. In 1987, legislation carried by Senator Ken Maddy, SB14, expanded parimutuel wagering in California by creating a statewide satellite wagering network. Under the provisions of SB14 and subsequent legislation, Fairs and existing racetracks are the venues for off-track wagering. More recently, federal courts

have ruled that certain Native American tribes may operate Satellite Wagering Facilities. Twenty-three Fairs and five racetracks are currently licensed to conduct satellite wagering.

As a consequence of this expansion, the revenue to Fairs from horseracing has increased significantly. Fairs have benefited in two ways from these developments: 1) Fairs that conduct satellite wagering benefit directly from the conducting parimutuel wagering themselves at their Fairs; 2) all Fairs benefit from revenues generated to the F&E Accounts.



Steward's Stand at the California State Fair, 1891.

san mateo
county
fair

ORGANIZATIONS RELATED TO HORSE RACING AND SATELLITE WAGERING



CALIFORNIA AUTHORITY OF RACING FAIRS (CARF)

CARF represents its member Fairs in matters that relate to horse racing and satellite wagering. CARF's seven-member Board of Directors is elected by its membership from amongst member Fairs. On behalf of those Fairs that conduct live racing, CARF negotiates joint contracts, manages contractors and vendors, prepares and submits license applications, and manages Host Track simulcast operations. On behalf of its member Fairs conducting satellite wagering, CARF prepares license applications and provides administrative, procedural, and technical support. Contracts between Fairs and simulcast organizations relating to satellite wagering are negotiated by and through CARF. CARF formulates and represents advocacy positions on legislative matters in concert with Western Fairs Association and the Division of Fairs and Expositions.



CALIFORNIA HORSE RACING BOARD (CHRB)

The CHRB has statutory oversight of all horseracing in California. Its nine commissioners are appointed by the Governor. The Board hires an Executive Director who administers Staff regulatory functions, including licensing, audits, and investigations. All racing associations, satellite wagering facilities, and personnel must be licensed by the CHRB.

RACING ASSOCIATIONS

Racing associations, with the exception of the Racing Fairs, are private organizations, operated for profit, licensed by the state to conduct horseracing. They may be constituted as partnerships, corporations, or real-estate investment trusts. Private racing associations in California, with the exception of Del Mar and Oak Tree, own the venues at which they operate. Racing Fairs, which are publicly-owned racing associations, conduct horseracing to generate revenues which support general Fair activities. Every racing association is allowed, and those above a certain size are required, to simulcast their races.

HORSEMEN'S ORGANIZATIONS

The horsemen are the owners and trainers of the horses that compete at racing meetings conducted by the racing associations. Horsemen share equally with racing associations in the division of simulcast revenue and expenses. Revenue to horsemen is distributed in the form of purses to winning horses. Each horseracing breed (Thoroughbred, Quarter Horse, Standardbred, Appaloosa, etc.) has a recognized association authorized to negotiate and contract on behalf of its members. Thoroughbred owners are represented by the Thoroughbred Owners of California (TOC); Thoroughbred trainers are represented by California Thoroughbred Trainers (CTT); Standardbred (harness) horsemen by the California Harness Association (CHA); quarterhorses by Pacific Coast Quarter Horsemen's Association (PCQHA); Arabians by ARAC; Appaloosas by Cal Western Appaloosa Racing Association; mules by American Mule Racing Association (AMRA).

SIMULCAST ORGANIZATIONS:

NCOTWInc and SCOTWInc

The original enabling legislation for simulcasting, SB14, provided that the racing associations, the Fairs and the horsemen form an organization to oversee and administer simulcast activities. Two such organizations have been formed: Northern California Off-Track Wagering Inc. (NCOTWInc.) and Southern California Off-Track Wagering Inc. (SCOTWInc.). See further description below. They are responsible for totalisator (wagering computer) services, satellite transmission, parimutuel clerks, banking, and accounting. Statute requires that satellite wagering Fairs have a contract, approved by the CHRB, with the appropriate regional simulcast operator.

NCOTWInc

Northern California Off-Track Wagering Inc., oversees the administration of simulcast operations in Northern California. Its members are Bay Meadows, California Authority of Racing Fairs (CARF), horsemen (TOC), and Golden Gate Fields. NCOTWInc sets policy, manages contracts for conduct of parimutuel wagering and employs parimutuel personnel at off-track simulcast facilities.

SCOTWInc

SCOTWInc. is the simulcast organization set up under provisions of SB14 in Southern California. Its members are racing associations, a racing Fair, satellite Fairs, and each horsemen's association. SCOTWInc. is a limited partnership with a corporation as the general partner. SCOTWInc. administers simulcast operations through its own staff and contracted services. Contracts covering satellite wagering Fairs are made directly with SCOTWInc.

PROSPECTUS

DUTIES AND RESPONSIBILITIES OF SIMULCAST ORGANIZATIONS

Satellite wagering operations fall into two categories:

- 1) operations provided and paid for by the simulcast organization
- 2) operations provided and paid for by the Satellite Facility.

Duties and responsibilities of the simulcast organization are described below.

DUTIES AND RESPONSIBILITIES OF THE SIMULCAST ORGANIZATIONS

The simulcast organization provides and pays for audiovisual signal transmission and all parimutuel costs, including parimutuel employees on-site at satellite facilities. To cover these costs, it receives a small percentage of the off-track handle.

PARIMUTUEL PERSONNEL AND OPERATIONS

Parimutuel personnel handle operations directly related to processing wagers. These operations include having a clerk at each terminal, money room and supervisory staff, and administrative support at the Host Track. The Host Track Mutuels Manager assigns the clerks and supervisor at each site. The local supervisor is also the Money Room attendant and has responsibility for the cash bank on-site. All parimutuel clerks in California are union members and belong to the Parimutuel Clerks Guild Local 280 SEIU. The simulcast organization is also responsible for banking, armored service, currency counting machines, payroll, and audit.

TOTALISATOR

The Totalisator is a computerized data processing operation that tabulates wagering pools, issues bet tickets, and calculates pay-offs. The system extends from cash register-like terminals at each wagering location, through a high-speed data communications system to a central data processing hub. All wagers are processed identically; a wager at any satellite location is tabulated into the same pools as wagers at the Host Track. Totalisator services include technical operations and maintenance personnel.

DATA PROCESSING HUB

The wagering data processed by the totalisator computers is transmitted back and forth between the hub and satellite sites via specially dedicated telephone data lines. These special high-speed circuits run directly from each site to the central computer. The system must operate fast enough so that entry of a wager at the satellite site, relay of that wager to the central computer, tabulation, and issuance of the bet ticket hundreds of miles away takes less than one second.

SATELLITE UPLINK; ENCRYPTION; SATELLITE TRANSPONDER

Four primary elements constitute the audiovisual transmission system. These are 1) satellite uplink, 2) encryption (scrambling), 3) satellite transponder time, and 4) satellite downlink and closed circuit television system. The satellite downlink and closed circuit television system are the responsibility of the Fair and will be discussed below. The other three elements are the responsibility of the simulcast organization. Here is a brief description of these services.

The **satellite uplink** is an earth transmitting station that beams a television signal from the Racetrack to a telecommunications satellite in orbit over the equator. The uplink sends a signal supplied by a television production facility at the track.

Encryption is the technical term for electronically scrambling a communications signal. The audiovisual television signal is scrambled to prevent recognizable reception by unauthorized users. A special code that authorizes decoders to reconstitute the signal into recognizable form is carried directly on the scrambled signal. Unlike most residential scrambling systems, this system can turn decoders on and off immediately.

The telecommunications **satellite** parked over the equator functions as a distant relay station. Signals beamed to it are amplified and retransmitted back to a wide coverage area on earth. Users rent or lease time on these satellites as needed. As satellite distribution of live racing has expanded, the horseracing industry has become a major purchaser of satellite time.

DUTIES AND RESPONSIBILITIES OF THE SATELLITE FACILITY

DUTIES AND RESPONSIBILITIES OF THE SATELLITE FACILITY

Satellite wagering will probably become the Fair's most profitable interim event. The Fair must take care that planning for its implementation includes an assessment of its impact on all other Fair activities. The receiving site (Fair or Racetrack) provides and pays for audiovisual receiving equipment, physical facilities, and all non-parimutuel personnel. The Fair Satellite Facility pays the cost of these operating expenses from its commission on parimutuel handle and from revenue generated by admissions, parking, concessions, and other miscellaneous sources. Careful planning with CARF and F&E must precede implementation. A more detailed description of these responsibilities follows.

PHYSICAL FACILITIES; PERSONNEL

The Fair provides and maintains the physical facilities for satellite wagering operations. This includes buildings, utilities, parking, safe ingress and egress, outdoor lighting, signage, and fencing. The Fair may charge for parking and for admission; typical prices are \$1 or \$2 for parking, and \$2 or \$3 for admission, perhaps with a higher admission for upgrade to an area of finer amenities. Important considerations in building preparation include ease of access, good HVAC and proper lighting. Outdoor lighting in the parking lot and over walkways to the Satellite Facility is important. Planning for parking and admissions money collection must include year-round weather conditions, crowd control, and security. Provisions must be made for two money counting rooms: one, controlled by the Fair, for cash receipts from parking, admissions, program sales, and miscellaneous sales; the other, controlled by the parimutuel department, for cash necessary to conduct wagering operations. The level of security for the Fair operations Money Room is the Fair's decision. The parimutuel Money Room must be secured by an alarm system that connects directly to a local law enforcement agency or to an alarm company with a 24-hour dispatcher. Security guards must be on duty at all times that wagering is conducted.

SATELLITE RECEIVING AND AUDIOVISUAL SYSTEMS

Statute stipulates that the Fair is responsible for provision of the satellite downlink and closed circuit TV system. CARF provides these systems at no initial cost to the Fair. The Fair, however, is expected to contribute to an equipment replacement fund based on equipment value and projected lifetime.

EMERGENCY MEDICAL SERVICES

First Aid and medical emergency services must be arranged with private services or local public emergency response teams.

FOOD AND BEVERAGE SERVICE

Food and drink concessions represent an important element of service provided to satellite patrons. Careful selection of an appropriate vendor should guide this decision. Fairs should consult with CARF to assure that the concessionaire meets standards expected by the CHRB.

EMPLOYEES

All personnel in the satellite wagering operation outside the Parimutuel Department are Fair employees. As noted above, the CHRB licenses all personnel. Facility Supervisory personnel must pass a test as part of their licensing requirements. Planning must include staff adequate to operate two shifts daily, day and night, six days a week. Job categories include the following:

Facility Supervisor) Tested and Licensed by
Assistant Supervisor) F&E and the CHRB
Admissions seller
Parking attendants
Program seller
Security Captain
Security Guards
Janitorial
Unskilled Labor

ACCOUNTING AND RECORD KEEPING

Operating expenses, with the exception of parimutuel operations, are the responsibility of the Fair. The Fair must keep careful records of its operating cost per performance, that is, separately, for day racing, for night racing, and by breed. Daytime racing (thoroughbred) is nearly always profitable. Occasionally the less popular night events will operate at a loss. When this is the case, the racing association must, by law, make up the difference. Statute specifies that a facility need not operate at a loss; hence the importance of accurate records. A Fair must accept all signals offered to it, even if it incurs operating losses, as long as the racing association pledges to make up any differences. This pledge is generally secured by a bond.

PARIMUTUEL DISTRIBUTIONS

PARIMUTUEL DISTRIBUTIONS

Revenue generation is the principal reason for the conduct of parimutuel wagering on horseracing. This revenue flows to a wide spectrum of statutory beneficiaries. The Legislature determines the division of those revenues; that division is sometimes a matter of political debate.

Commissions from parimutuel handle are apportioned to the various beneficiaries according to a schedule that includes region (Northern California or Southern California racing), breed of horses (thoroughbred, quarter horse, etc.), and whether the handle is generated on-track or off-track.

The following schedule shows division of the satellite parimutuel handle for Northern California thoroughbreds. Distributions for other breeds and regions are similar.

Conventional handle means Win, Place, and Show wagers; Exotic means Exacta, Daily Double, Triple, Pick Six, etc.

Returned to Winning Bettors (conventional) 84%; (exotic) 79%
Other Parimutuel Distributions (conventional) 16%; (exotic) 21%

- Racetrack Commissions
- Purses (Horsemen)
- State License Fee
- Simulcast Operator (Expenses)
- Satellite Facility
- Promotion (to Satellite Facility)
- Breeders' Awards
- Stabling & Vanning
- Local Government
- Equine Research (UC Davis)

RETURNED TO WINNING BETTORS

All money wagered on losing horses is divided up for payment to the winning bettors and other beneficiaries. Winning bettors receive the largest portion of parimutuel distributions.

RACING ASSOCIATIONS

All racing associations operate to make a profit. Part of their income is derived from commissions on parimutuel handle. The association commission is equivalent to the Purses', or Horsemen's, commission.

PURSES PAID TO HORSEMEN

The commission for payment of purses is racing's mechanism of self-sustenance. A percentage of the handle, equivalent to the commission paid the racing association, flows back to the owners of winning horses. Purses are normally paid, in diminishing amounts, based on the order of the horses finishing the race. Associations may supplement the purses from time to time, but the primary source of purse money derives from a portion of the handle.

STATE OF CALIFORNIA

The State assesses a license fee for the right to conduct racing. Recipients of this money include the General Fund, the F&E Funds and the CHRB. The budget for the CHRB is funded from license fees. These distributions are set in statute.

DISTRIBUTION FOR SIMULCAST EXPENSES

(Paid to Simulcast Organization)

This distribution is used for payment of satellite wagering expenses such as satellite transmission, totalisator, and off-track parimutuel labor. Any portion of this fund left unspent after expenses are paid is divided equally between the horsemen and the association.

COMMISSION TO SATELLITE FACILITY - 2% LOCATION FEE

Each satellite wagering facility receives 2% of the handle generated from its operation. In the parimutuel reports, this is known as a location fee. This constitutes approximately half of the gross operating revenue. Admissions, parking, and concessions constitute the other half.

DISTRIBUTION FOR PROMOTION

(Paid to California Marketing Committee)

A proportion of handle flows to a fund used for promotion of horse racing and satellite wagering. This money is administered by the California Marketing Committee (CMC). Fair satellite facilities receive an allocation for marketing and promotion from this fund. CARF coordinates marketing plans and budgets with individual Fairs and with the CMC.

BREEDERS' AWARDS

This portion goes to breeders of winning horses as an incentive to successful operations and for financial support of California's Thoroughbred breeding industry.

STABLING AND VANNING FUND

This fund helps pay the expenses of keeping and transporting horses. It helps insure the long-term vitality of the racing economy by offsetting the high cost of stabling and moving fine competitive racehorses.

LOCAL GOVERNMENT

Local government may receive 0.33% of handle generated at each satellite location. This goes to the municipality or county in which the facility is located or to a combination of both. The local government must formally request payment; if it does not, the money reverts to the State.

UC DAVIS EQUINE VETERINARY RESEARCH

The Veterinary School at University of California, Davis has a world-renowned Equine Research Facility. This fund helps sustain that education and research facility.

CONCLUSION

Horseracing and Fairs both play an important role in California's agricultural economy. Horse racing represents a sector of the agricultural economy that creates many jobs and generates substantial revenue. The horseracing industry relies on its beneficial political alliance with the Fairs to support legislation in its interest. The Fairs rely on the revenue generated from horseracing to supplement their operating revenue. Their relationship is mutually beneficial.

PROSPECTUS

STATEMENT OF QUALIFICATIONS

CALIFORNIA FAIRS



QUALIFICATIONS OF THE FAIR'S DEVELOPMENT TEAM



California Authority of Racing Fairs (CARF), working with the California Department of Food and Agriculture, has been active in the design and development of all twenty-three Satellite Wagering Facilities in presently operating at California Fairs. The development of many of these Fair facilities has also included the active partnership of the California Construction Authority, which was constituted in the early 1990's to manage construction of satellite facilities. Our team has extensive working relationships with the contractors, designers and specialized vendors necessary for the successful implementation of this unique activity. This experienced team of Fair organizations, with a proven record of success in development of twenty-three California Fair satellite wagering facilities, is ready to assist San Mateo County Event Center in the design, construction, licensing and operation of a satellite wagering facility on its Fairgrounds. One measure of the success of this group: in 2006, the satellite wagering facilities implemented by this team transacted parimutuel wagering of over \$650 million.

San Mateo County Fair

ADDENDUM

**REVISED OFFER FROM
CALIFORNIA AUTHORITY OF RACING FAIRS
AND
CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE
TO
SAN MATEO EVENT CENTER
FOR
DEVELOPMENT OF
A
SATELLITE WAGERING FACILITY
ON ITS FAIRGROUNDS**

NOVEMBER 5, 2007



Director, Michael F. Treacy
Division of Fairs and Expositions
1010 Hurley Way, Ste. 200
Sacramento, CA 95825
www.cdfa.ca.gov/fe

Christopher Korby, Executive Director
1776 Tribute Road, Suite 150
Sacramento, CA 95815
www.calairs.com

November 5, 2007

Mr. Jack Olsen, Chairman
San Mateo County Fair and Event Center
2495 South Delaware Street
San Mateo, CA 94403

Dear Jack,

This letter memorializes the financing package offered by the California Authority of Racing Fairs (CARF) and the California Department of Food and Agriculture Division of Fairs and Expositions (F&E) during discussions on October 30, 2007, with representatives of the San Mateo Event Center (SMEC). These discussions were in regard to development of a Satellite Wagering Facility (SWF) on the San Mateo Fairgrounds. This offer is conditional on and subject to approval by the SMEC Board of Directors.

The parties agree that Oak and Cypress Halls on the Fairgrounds will be converted to a SWF at a projected cost of \$3.5 million. In collaboration with the San Mateo Event Center, CARF, California Construction Authority (CCA) and F&E will undertake the facility design, manage conversion construction, furnish technical equipment and provide training for Fair personnel who will operate the facility (see attached *Prospectus*). CARF and F&E will furnish funding through a package of loans and grants which will total \$2.65 million (see Attachment A). SMEC and/or San Mateo County agree that they will furnish the remaining development funding, estimated at \$850,000.

Planning, design and construction will proceed on a schedule that anticipates a completed satellite facility ready for operation in September 2008. SMEC agrees that it will apply for the license to operate and, when the license is obtained, operate the facility directly without reliance on any third party.

CARF and F&E agree to endorse San Mateo's license application to the California Horse Racing Board and assist in the licensure process.

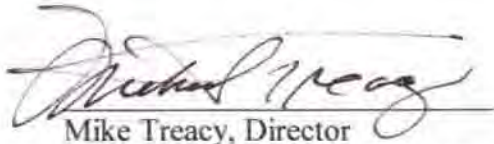
San Mateo Satellite Wagering Facility

Page 2

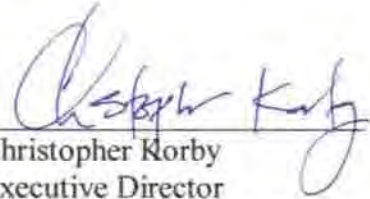
CARF and F&E also pledge their full assistance and support to ensure that San Mateo County Fair racing dates in 2008 are conducted for the full and customary benefit of the San Mateo County Fair. In the event that Bay Meadows race track does not renew its agreement with the Fair for the conduct of horse racing, CARF and F&E will assist the San Mateo in securing another horse racing venue at which to conduct its meeting.

We look forward to working with the San Mateo Event Center on this important project.

Sincerely,



Mike Treacy, Director
Department of Food & Agriculture
Division of Fairs and Expositions



Christopher Korby
Executive Director
California Authority of
Racing Fairs

Attachments: 2

ATTACHMENT A

California Authority of Racing Fairs (CARF) and California Department of Food and Agriculture Division of Fairs and Expositions (F&E) agree to furnish the following funding for development of a Satellite Wagering Facility at the San Mateo County Fairgrounds. Budget for this project is estimated at \$3.5 million.

| | |
|---|---------------------------|
| Development Grant from CARF | \$ 650,000 |
| Interest-free loan from CARF | 750,000 |
| Interest-free loan from F&E | 1,000,000 |
| Interest-bearing loan (LAIF) from F&E | <u>250,000</u> |
| Subtotal CARF and F&E | <u>\$2,650,000</u> |
| San Mateo Event Center and/or San Mateo County | <u>850,000</u> |
| TOTAL | <u>\$3,500,000</u> |

DETAIL

Development Grant from CARF

Source: Expenditure Plan allocations to CARF in FY 2006-07 and FY 2007-08

Interest-free loan from CARF

Loan for 10 years, no interest, initial one year grace period (2008), 10% paid back annually to CARF starting Year 2 (2009).

Source: Expenditure Plan allocation to CARF FY 2008-09

Interest-free loan from F&E

Loan for 10 years, no interest, initial one year grace period, 10% paid back annually starting Year 2 (2009).

Source: Expenditure Plan Replenishment Fund FY 2008-09.

Interest-bearing loan (at LAIF interest rate) from F&E

Loan for 10 years. Fixed interest rate of 5.24% (based on September 2007 Local Agency Investment Fund quarterly interest rate) paid back annually, beginning 2009.

Source: Expenditure Plan Investment Reserve Fund FY 2008-09.

Initial 
F&E

Initial 
CARF

ADDENDUM

SAN MATEO FAIR SATELLITE WAGERING FACILITY DEVELOPMENT

BUDGET SUPPLEMENTS *FEBRUARY 2008*

| | |
|--|-------------|
| • San Mateo County Loan | \$900,000 |
| • Division of Fairs and Expositions Loan | \$200,000 |
| ▪ Total Supplemental | \$1,100,000 |

| | |
|---------------------------------------|-------------|
| Existing Project Budget November 2007 | \$3,500,000 |
|---------------------------------------|-------------|

| | |
|---|--------------------|
| PROJECT BUDGET AS OF FEBRUARY 2008 | \$4,600,000 |
|---|--------------------|